



# 2011 Half Year Results Presentation

4 August 2011



# AGENDA

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Introduction

John Napier, Chairman

Business Review and Outlook

Andy Haste, CEO

Financials

George Culmer, CFO

Question & Answers

# INTRODUCTION

- **A strong top and bottom line performance**
- **Maintained financial strength and capital position**
- **Continuing to deliver sustainable profitable performance**
- **Interim dividend increased by 7% to 3.34p (H1 2010: 3.12p)**

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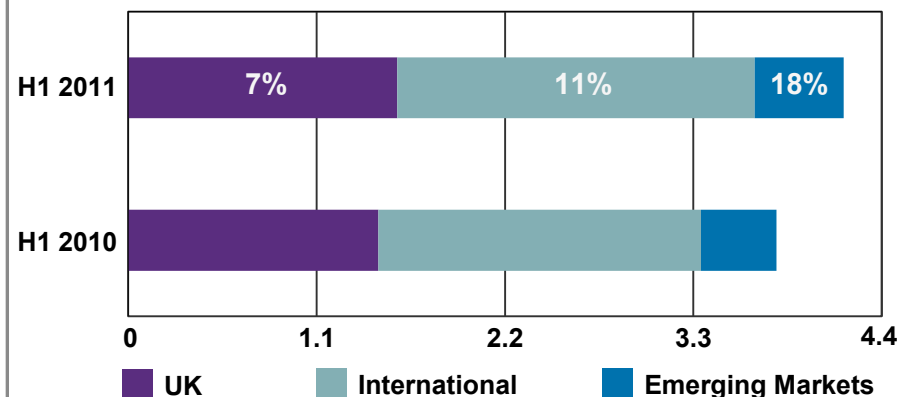
## STRONG TOP LINE AND BOTTOM LINE PERFORMANCE

- **Strong half for the Group on both the top and bottom line**
- **Premium growth driven by rate, targeted organic initiatives and the benefit of recent acquisitions**
- **Significant improvement in profitability despite record catastrophe losses for industry**
- **Confident of delivering a strong full year performance**

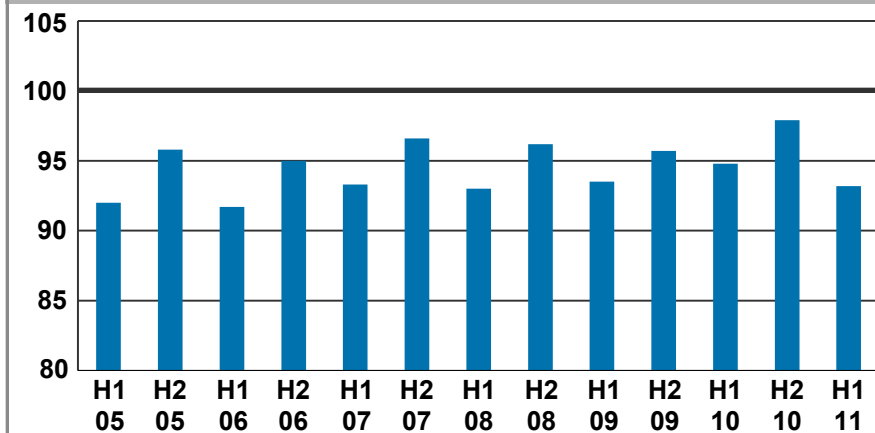
# CONTINUED STRONG FINANCIAL PERFORMANCE

(£m)	H1 2011	H1 2010	Mvt.
Net written premiums	4,188	3,802	10%
Underwriting result	206	136	51%
Combined operating ratio	93.2%	94.8%	1.6 pts
Investment result	327	310	5%
Operating result	467	382	22%
Profit before tax	376	302	25%

### Growth in NWP at Reported FX (£bn)

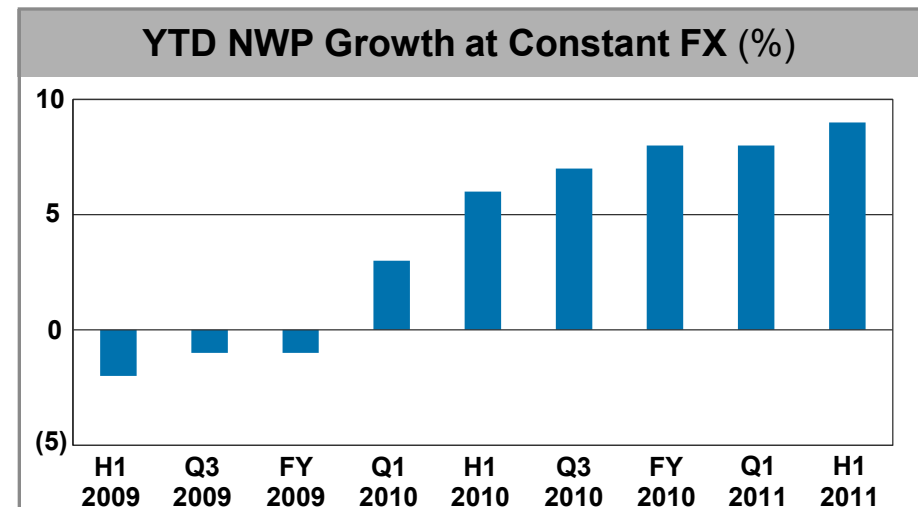
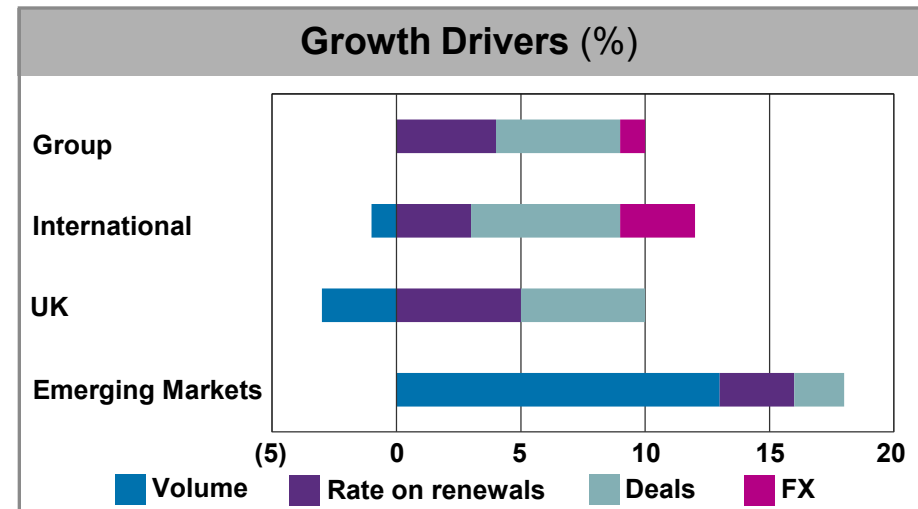


### COR (%)



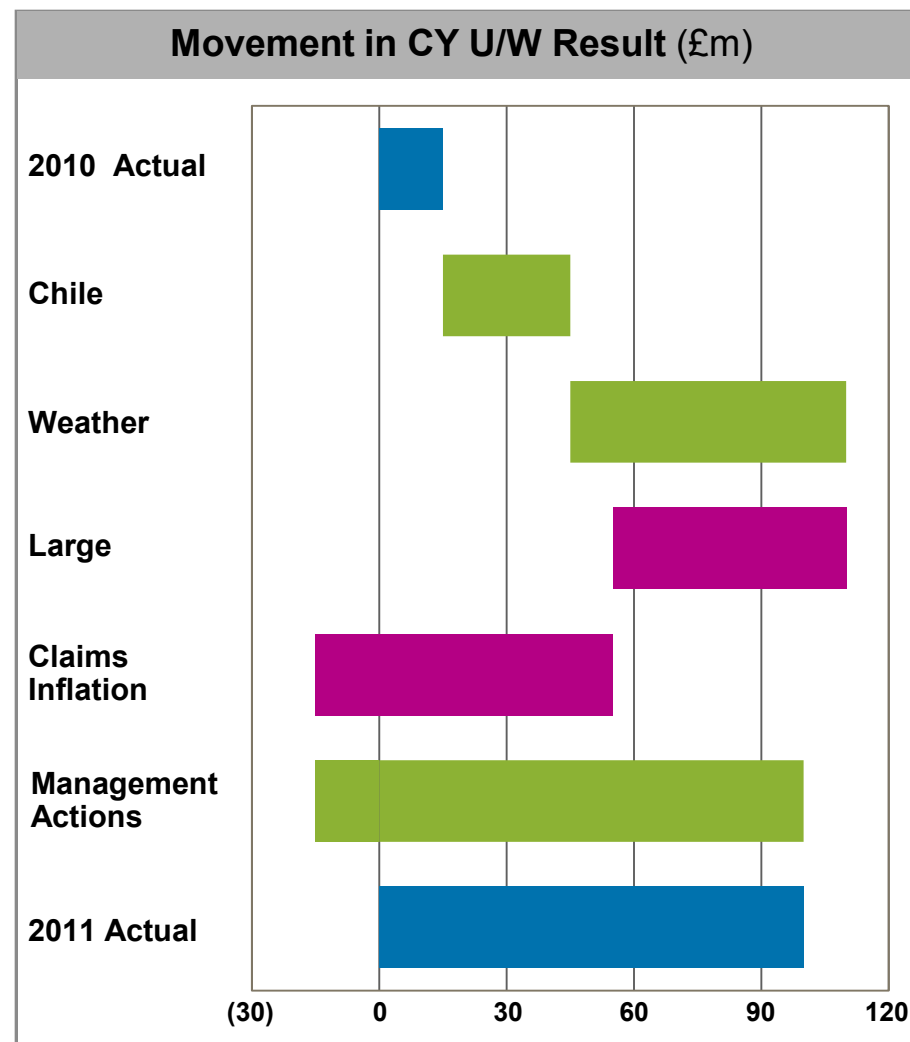
# CONTINUED STRONG TOP LINE MOMENTUM

- Premiums up by 10% as reported across the Group or 9% at constant
  - International up 11% (8% constant)
  - UK NWP up 7%
  - Emerging Markets NWP up 18%
- Growth comprises 5% deals and 4% rate on renewals with volumes flat on 2010
- Acquisitions performing well and integrations progressing as planned
- Generating strong momentum and confident of driving the top line forward



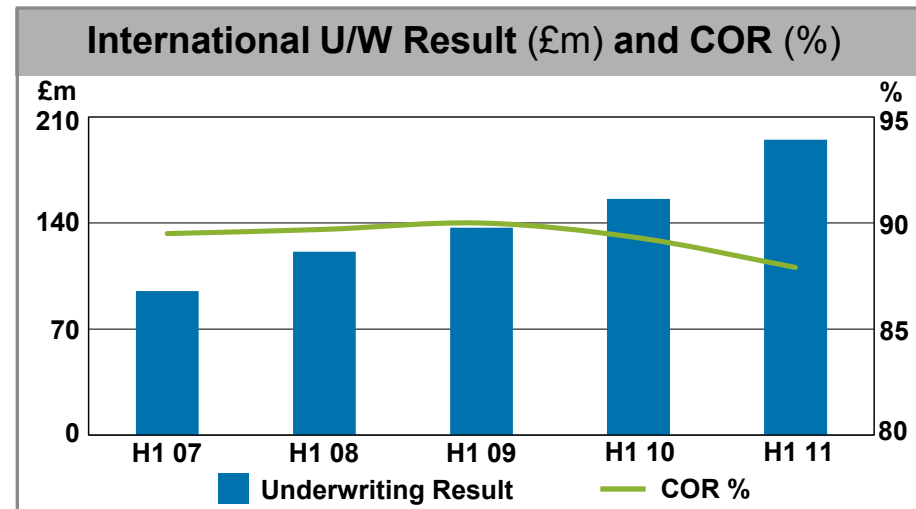
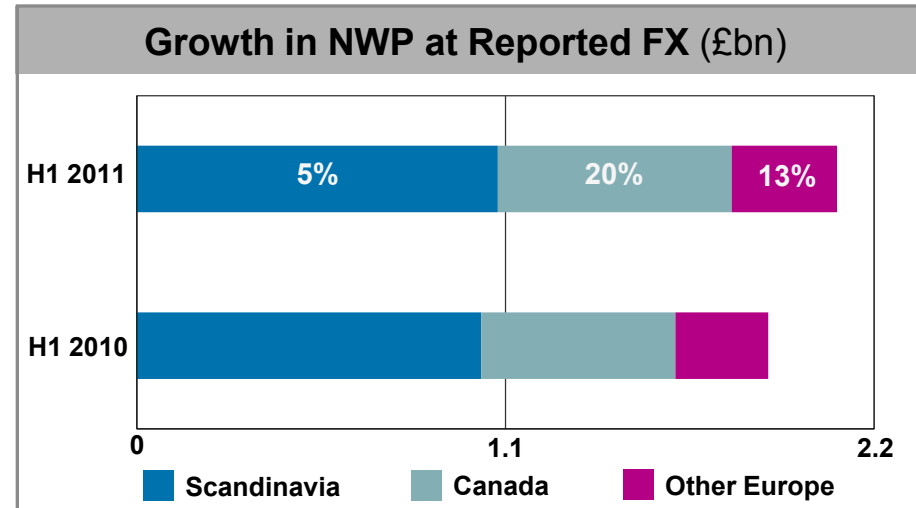
# IMPROVED UNDERWRITING PROFITABILITY

- Underwriting result of £206m up by 51% across the Group
- £100m current and £106m prior year with positive run-off in all regions
- Current year result up from £15m last year
  - 2010 includes Chile earthquake losses of £30m
  - Weather £65m better and other large losses £55m worse than prior year
  - Management actions of £115m offset claims inflation of c4%
- Confident of continuing to deliver sustainable profitable performance



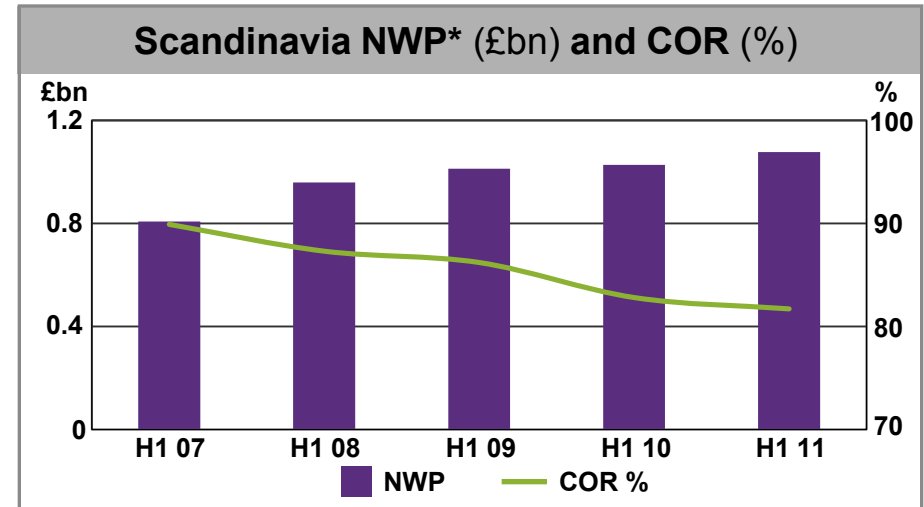
# INTERNATIONAL: STRONG TOP AND BOTTOM LINE PERFORMANCE

- Excellent first half performance with
  - NWP of £2.1bn up by 11%
  - COR of 87.9%; 1.4 point improvement
  - Underwriting profit of £195m
- Another strong performance from both Scandinavia and Canada
- Other Europe NWP up by 14% (constant) due to rate and 123 Money in Ireland
- Italian market remains tough; we continue to take action to improve profitability

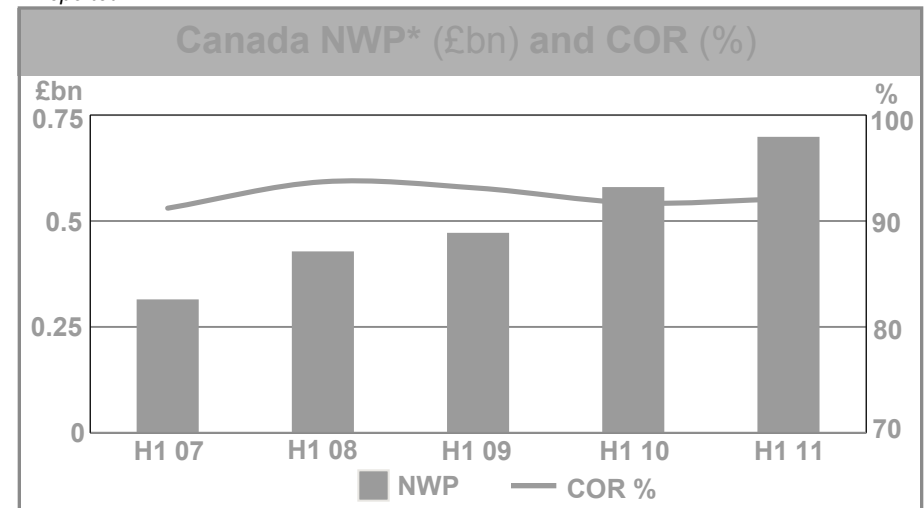


# INTERNATIONAL: STRONG TOP AND BOTTOM LINE PERFORMANCE

- **Scandinavia Personal up 1% (constant) and Commercial in line with prior year**
- **Scandinavian profitability remains strong, u/w result up 13% to £144m; COR of 81.7%**
- **Canada underwriting result improved by 20% to £54m; COR of 92.1%**
- **Canada Personal NWP up by 9% with Johnson up 10%; Commercial up 53% driven by GCAN, Risk Solutions and SME**
- **Confident of delivering c10% growth across International for the full year**



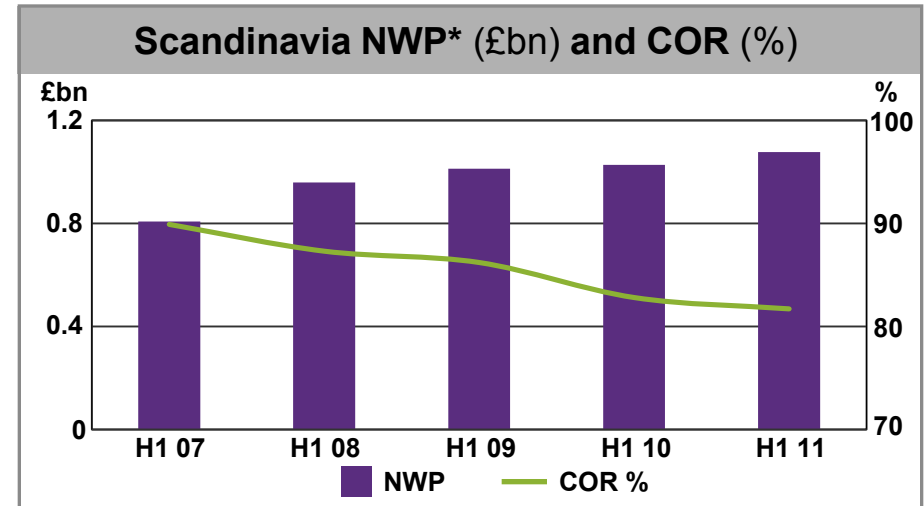
\* Reported FX



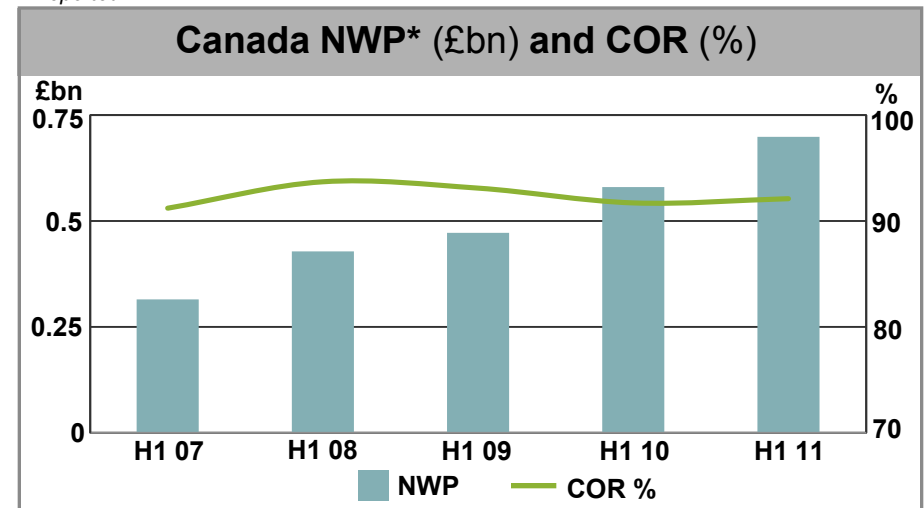
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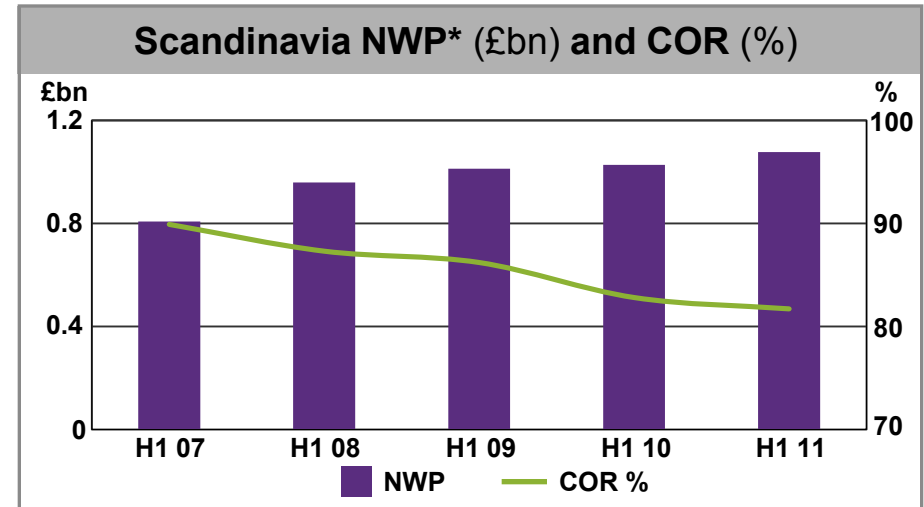
\* Reported FX



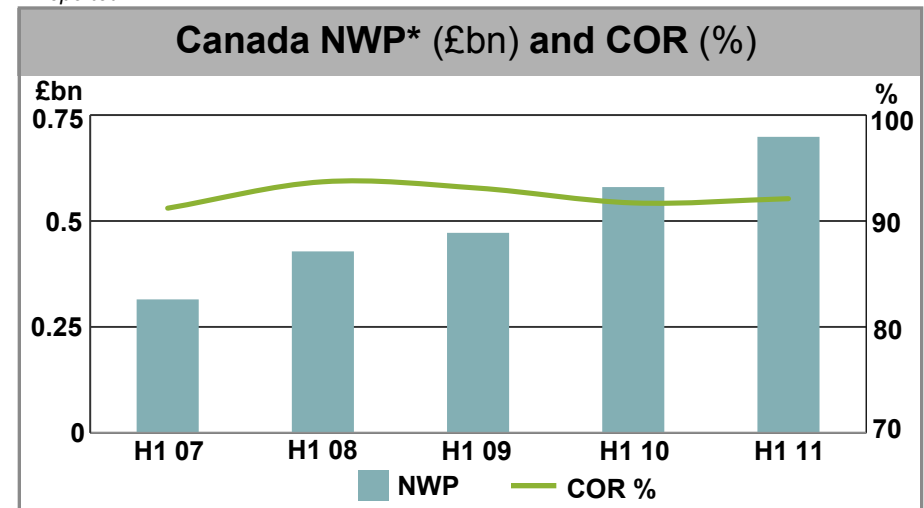
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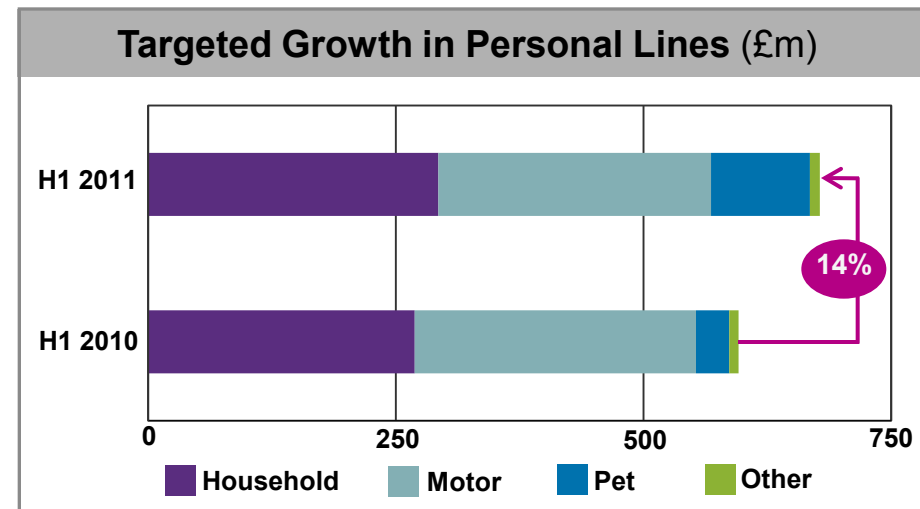
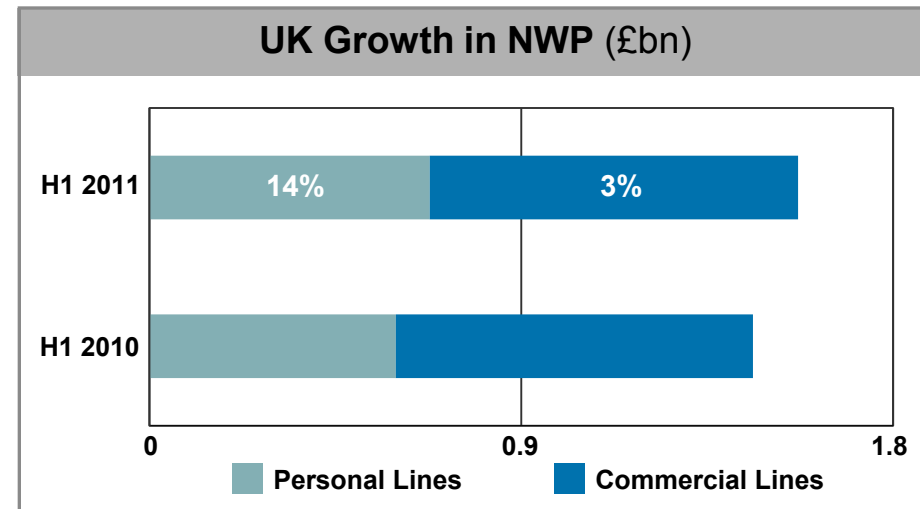
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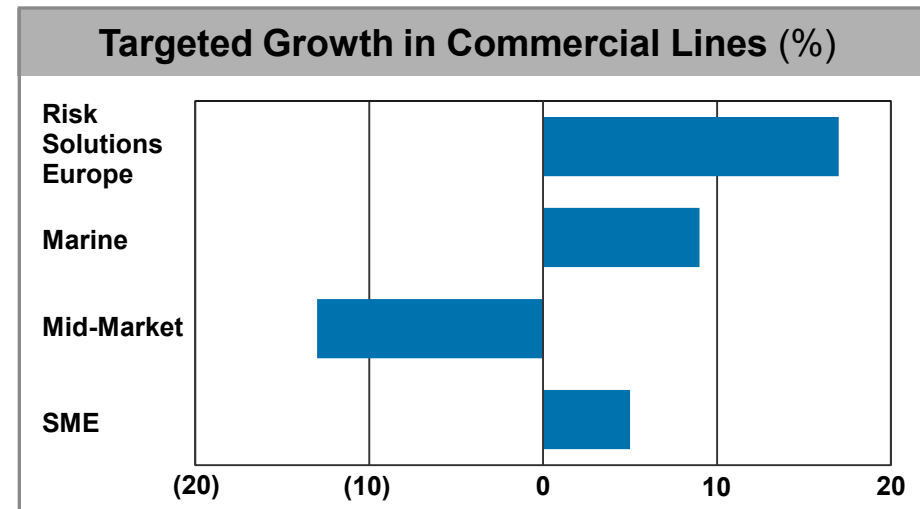
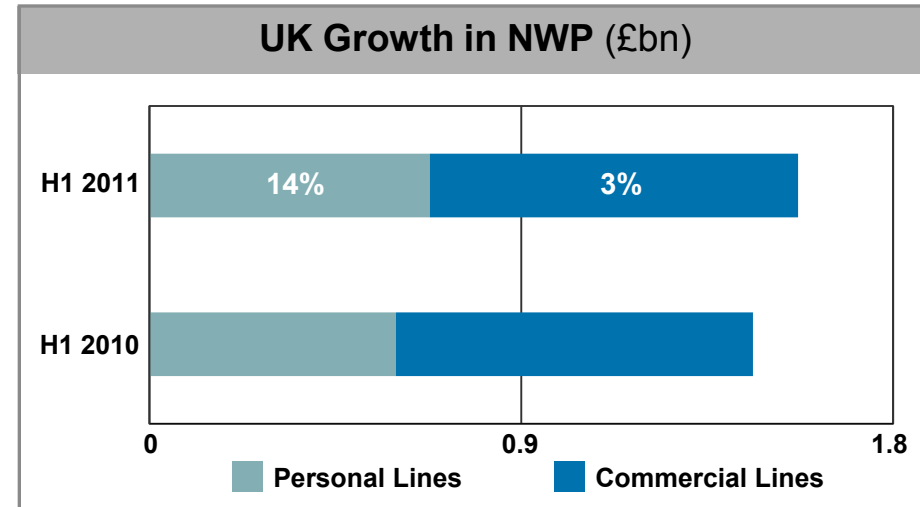
# UK: DELIVERING TARGETED GROWTH

- **NWP up by 7% to £1.6bn; COR of 98.5% impacted by Q1 cat events**
- **Personal up 14% driven by Tesco Pet NWP of £66m and Household growth of 9% offset by a 3% reduction in Motor**
- **Commercial lines up 3% with Marine up 9%, Risk Solutions Europe up 17% offset by a 13% reduction in Mid-Market**
- **Continue to drive targeted growth in 2011**
- **On track to achieve full year expense ratio of c14% by the end of 2011, a year early**



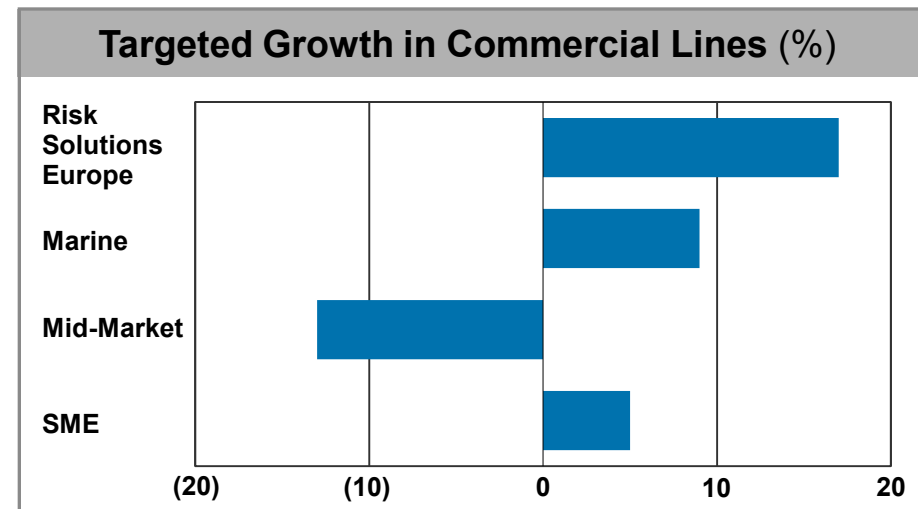
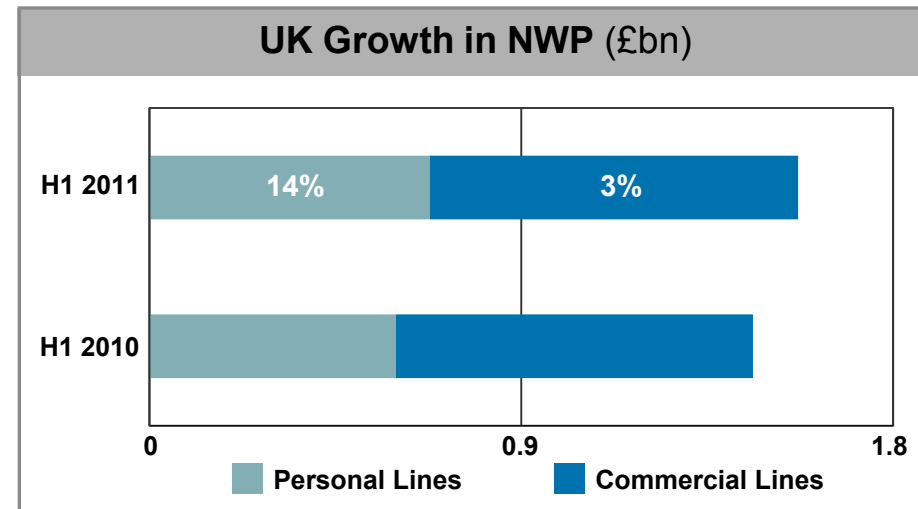
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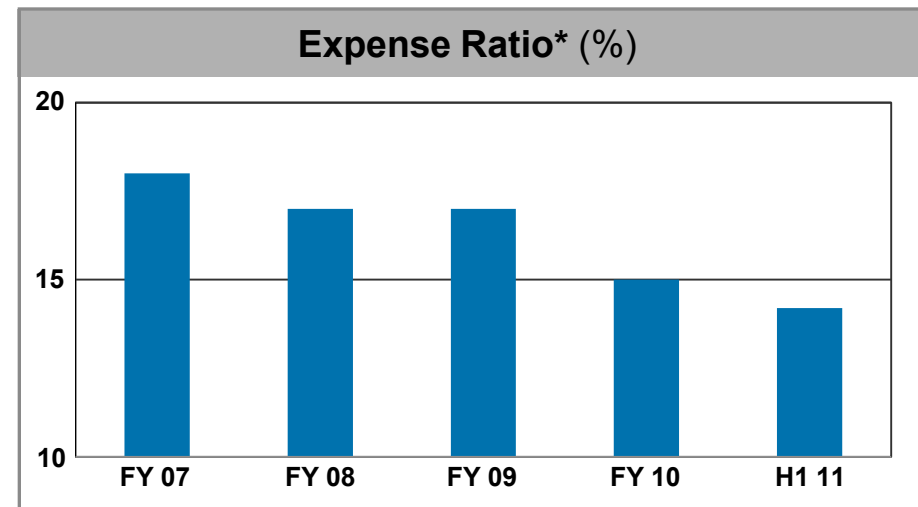
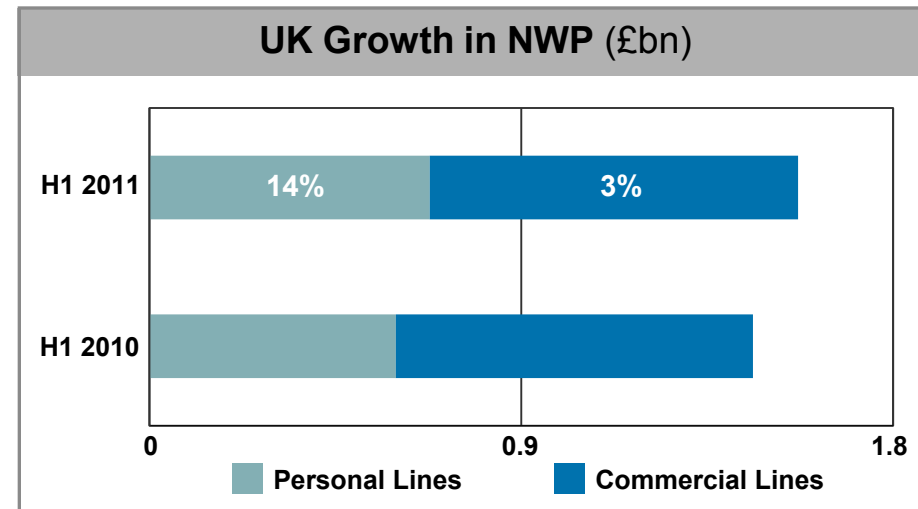
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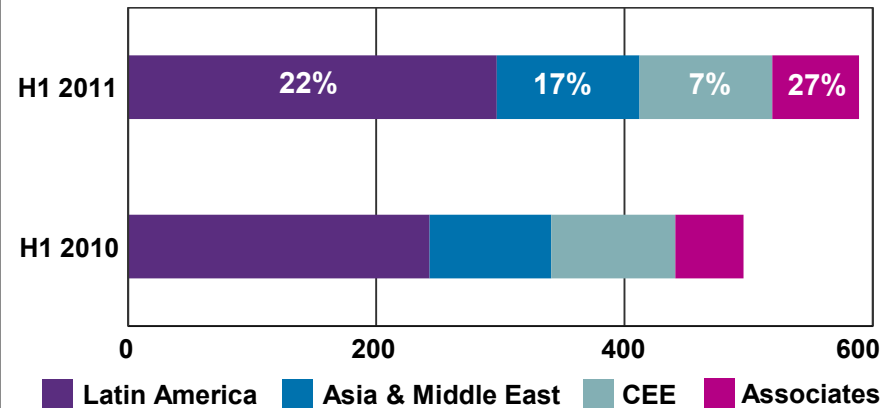


\* Excluding commissions

# EMERGING MARKETS: CONTINUED DOUBLE DIGIT GROWTH

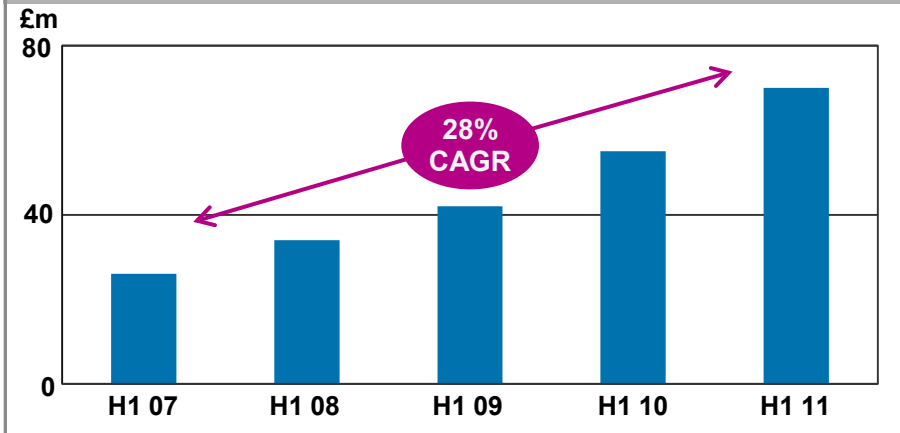
- NWP up by 18% to £519m and by 19% to £589m including India
- COR improved to 98.6% despite extreme weather in the Baltics, KSA and Colombia
- Asia Middle East NWP up 22% (constant) due to Al Ahlia in Oman and Specialty
- India NWP up 32% to £70m driven by Motor
- Central & Eastern Europe NWP up 7%; Baltic economies stabilised and continued growth in the Direct operations

### Emerging Markets Growth in NWP\* (£m)



\* Reported FX

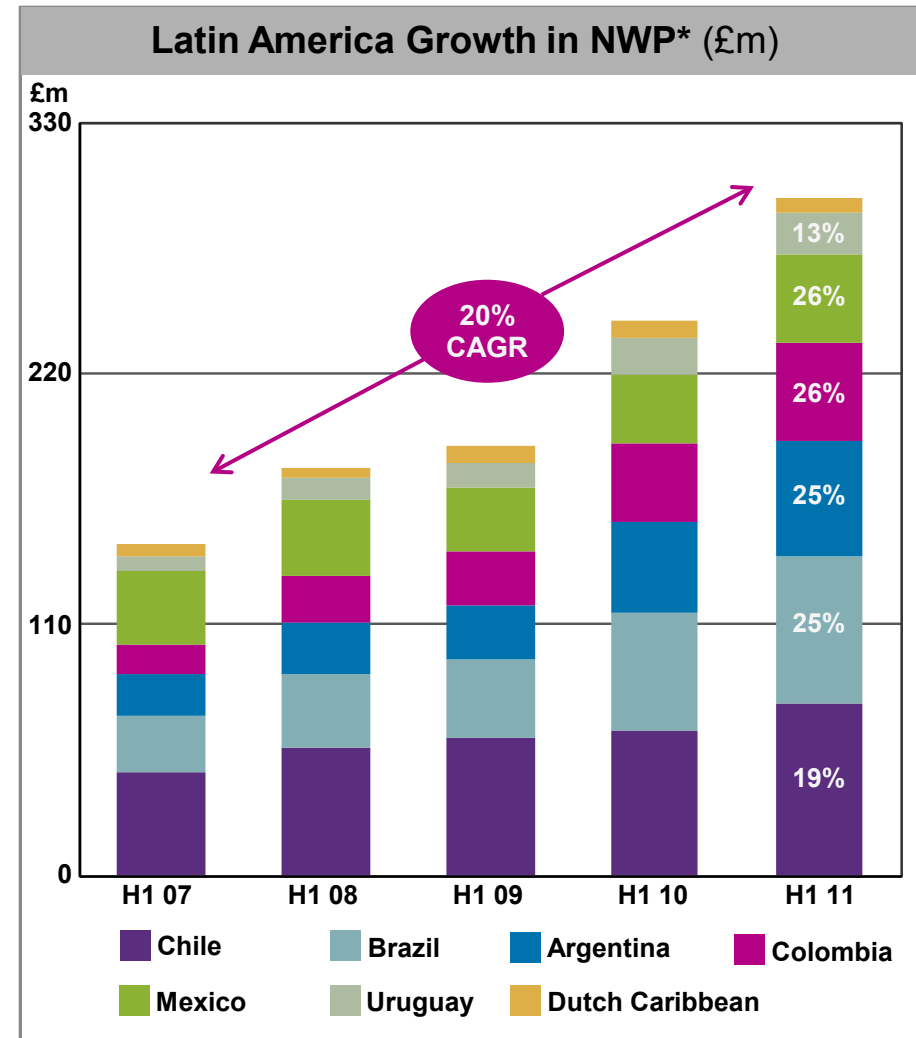
### India Growth in NWP\* (£m)



\* Reported FX

# EMERGING MARKETS: DRIVING STRONG GROWTH IN LATIN AMERICA

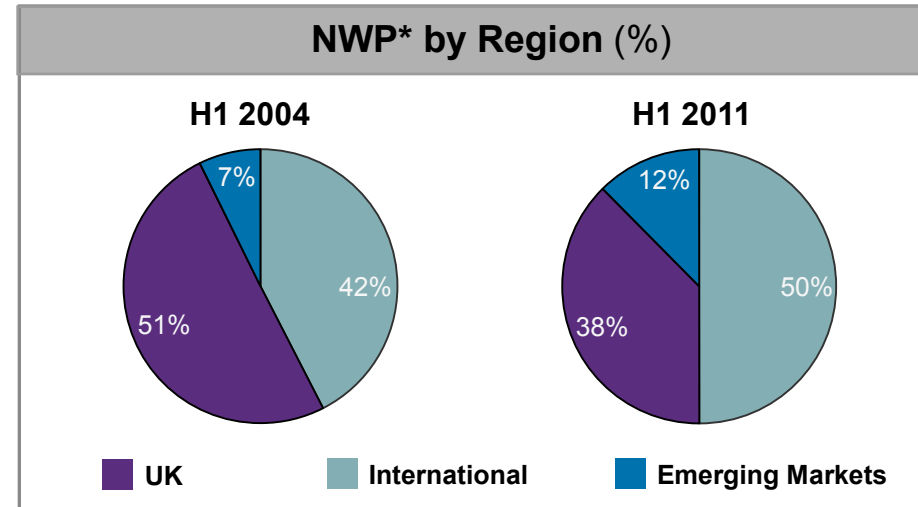
- Strong export-led GDP growth and new car sales drive insurance market growth
- NWP growth of 22% to £297m with double digit growth in six countries
- Affinity premiums up 43% (constant) with 8 new deals signed in the first half
- Marine NWP up 26% led by Brazil, Colombia and Argentina
- Emerging Markets remains on track to double NWP to c£2.2bn by the end of 2015



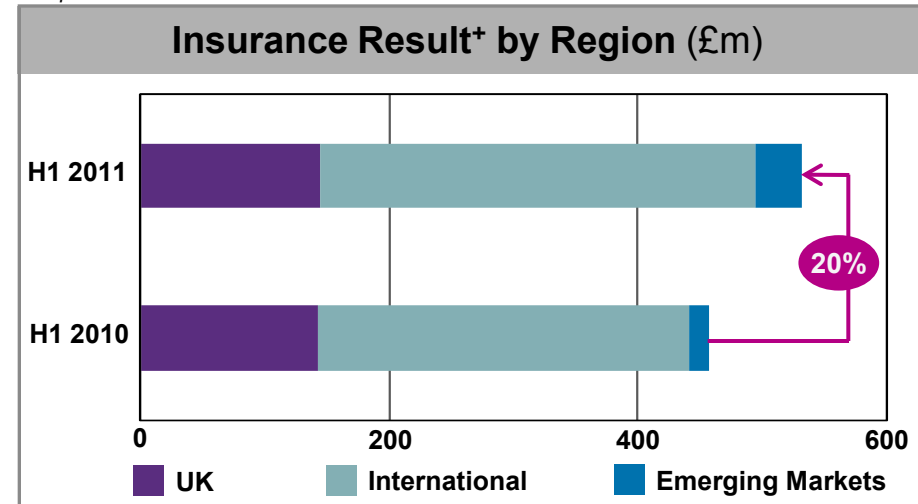
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# CONFIDENT OUTLOOK

- A strong first half for the Group
- Driving the top line forward in 2011 and confident of achieving
  - c10% growth in International
  - Continued double digit growth in Emerging Markets, and
  - Targeted growth in the UK
- Continue to expect 2011 COR for the Group to be better than 95%
- Remain on track to deliver c70% of NWP from International and Emerging Markets within 5 years
- Confident outlook reflected in 7% increase in interim dividend to 3.34p



\* Reported FX



\* Insurance result comprises underwriting result plus investment result

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## RESULTS SUMMARY

(£m)	H1 2011	H1 2010	Mvt.
Net written premiums	4,188	3,802	10%
Underwriting result	206	136	51%
Operating result	467	382	22%
Profit before tax	376	302	25%
Profit after tax	277	224	24%
Underlying return on opening equity	15.2%	13.2%	2.0pts
Underlying return on average equity	15.0%	13.4%	1.6pts
	H1 2011	FY 2010	Mvt.
Net asset value per share excluding IAS 19	110p	108p	2%
Net asset value per share	106p	104p	2%

# OPERATING RESULT

(£m)	H1 2011	H1 2010	Mvt.	
Underwriting result	206	136	51%	<ul style="list-style-type: none"> <li>Underwriting result includes current year profit of £100m and prior year of £106m</li> <li>Reserves remain significantly to the right side of best estimate</li> </ul>
Investment income	313	292	7%	<ul style="list-style-type: none"> <li>Investment income up 7% with management actions, one-off property income and fx offsetting falling yields</li> </ul>
Total gains	59	67	(12)%	<ul style="list-style-type: none"> <li>Total gains mainly reflect realised gains on equities as equity exposure reduced</li> </ul>
Discount unwind	(45)	(49)	8%	
Investment result	327	310	5%	<ul style="list-style-type: none"> <li>Now expect full year investment income to be between £560m and £570m; total gains to be around twice the first half amount</li> </ul>
Other activities	(66)	(64)	(3)%	
Operating result	467	382	22%	<ul style="list-style-type: none"> <li>Other activities include investment in CEE Direct operations of £13m</li> </ul>

# INCOME STATEMENT

(£m)	H1 2011	H1 2010	Mvt.
Operating result	467	382	22%
Interest and other	(78)	(71)	(10)%
Reorganisation costs	-	(5)	100%
Solvency II costs	(9)	(1)	(800)%
Acquisitions and disposals	(4)	(3)	(33)%
Profit before tax	376	302	25%
Tax	(99)	(78)	(27)%
Profit after tax	277	224	24%

- Operating result of £467m, an increase of 22% on H1 2010
- Interest and other up 10% due to increase in amortisation following 2010 acquisitions
- Cost of Solvency II implementation separated out
- Acquisitions include integration costs for GCAN, expect full year charge for acquisitions and disposals to be c£15m
- Tax charge of £99m; effective rate of 26%
- Profit after tax of £277m up 24%

# OPERATING CASHFLOW

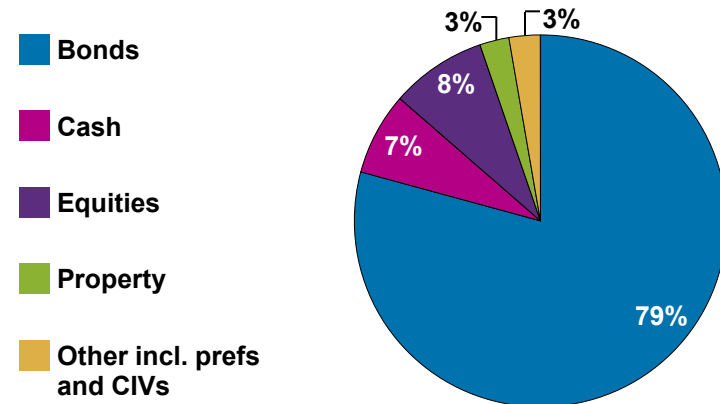
(£m)	H1 2011	H1 2010	H1 2009
Chile quake cash calls	(23)	94	-
Equity hedges	(3)	(23)	60
Underlying	307	274	225
Operating cashflow	281	345	285
Tax paid	(164)	(163)	(111)
Interest paid	(75)	(77)	(37)
Dividends paid	(196)	(185)	(146)
Pension funding	(56)	(46)	(37)
Net cashflow	(210)	(126)	(46)
Net financing activity	6	13	497
Corporate activity	(283)	(83)	(92)
Cash movement	(487)	(196)	359

- Operating cash flow of £281m impacted by Chilean cash calls and equity hedges
- Underlying cashflows of £307m up 12% and include £65m of 2010 freeze claims paid in 2011
- Tax and interest represent two thirds of expected annual cost
- Dividends paid reflects increase in both 2010 final dividend and scrip uptake
- Pension funding up by £10m due to timing of employer contributions
- H1 2011 corporate activity mainly reflects GCAN acquisition in Canada

# INVESTMENT PORTFOLIO

- Total investment portfolio of £14.7bn
- High quality, low risk strategy unchanged but taking action in current conditions
- Equities to be cut by c£330m during 2011
  - Sold £130m of equities in H1
- Further reduced exposure to PIIGS
  - Government bonds down from £257m last year to £160m
  - Bank debt exposure limited at £131m
- Average duration raised to 3.4 years to benefit from higher yields

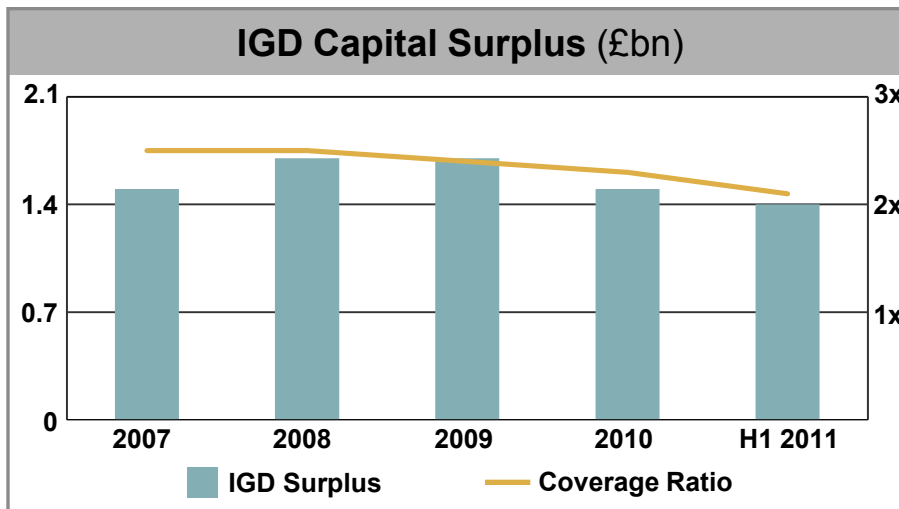
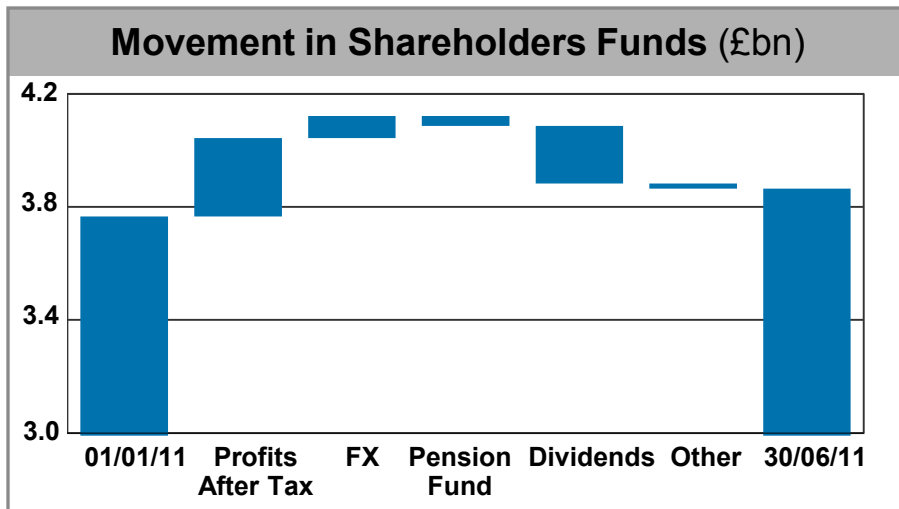
### Investment Portfolio (%)



### Peripheral Europe Government Debt (£m)

(£m)	H1 2011	H1 2010	Mvt.
Ireland	64	150	(86)
Italy	46	40	6
Spain	44	40	4
Portugal	-	21	(21)
Greece	6	6	-
	160	257	(97)

# SHAREHOLDER FUNDS & CAPITAL POSITION

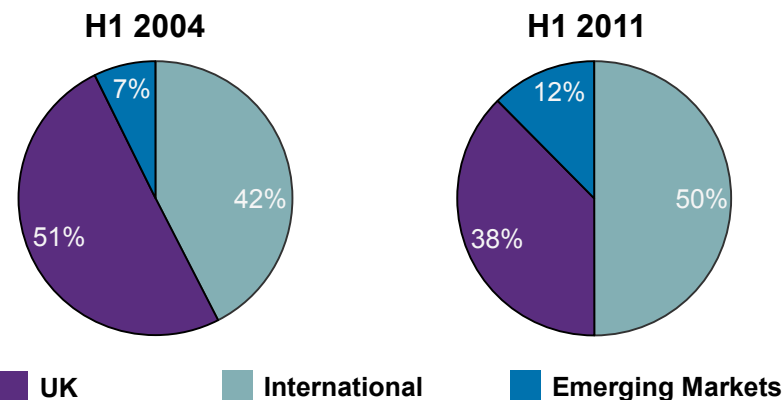


- Shareholders' funds of £3.9bn up 3%
  - Profits and FX partly offset by fair value losses and final 2010 dividend
- Maintained strong capital position
  - IGD surplus of £1.4bn with coverage remaining at 2.1x the requirement
  - Economic capital surplus £1.0bn
- Continue to make good progress on Solvency II and actively engaged with FSA

# CONFIDENT OUTLOOK

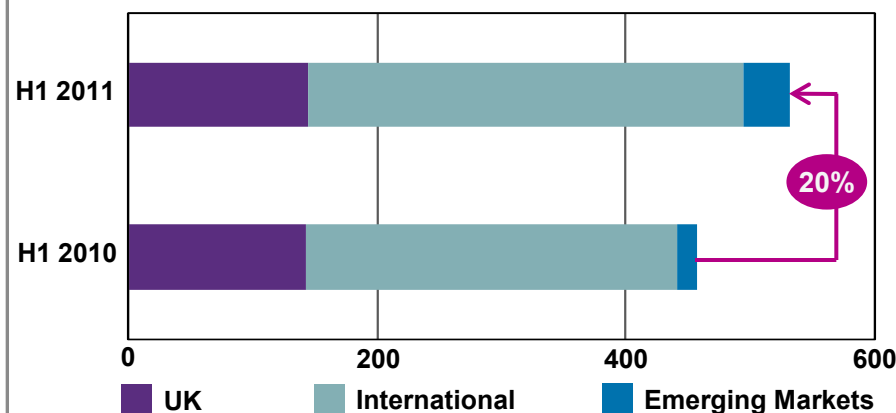
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  - c10% growth in International
  - Continued double digit growth in Emerging Markets, and
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- Continue to expect 2011 COR for the Group to be better than 95%
- Remain on track to deliver c70% of NWP from International and Emerging Markets within 5 years
- Confident outlook reflected in 7% increase in interim dividend to 3.34p

### NWP\* by Region (%)



\* Reported FX

### Insurance Result\* by Region (£m)



\* Insurance result comprises underwriting result plus investment result

**This presentation may contain ‘forward-looking statements’ with respect to certain of the Group’s plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as “may”, “could”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “aim”, “outlook”, “believe”, “plan”, “seek”, “continue” or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group’s control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group’s forward-looking statements. Forward-looking statements in this presentation are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this presentation should be construed as a profit forecast.**



# 2011 Half Year Results Presentation

4 August 2011

